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VALUE BILLING

Billing is an attitude, not a process! If this statement seems rather startling, consider for a moment the following questions and comments.

Do you deem yourself to be an average accountant? If you do, you will probably receive average fees for your services for the rest of your career. Do you sometimes consider yourself to be smarter than other people? If you do, why do you continue to bill at the same hourly rate? Here's another question. Is every hour of your working day worth the same amount of money? I don't believe so. I would answer, "definitely not."

When asked what their time is worth, CPAs invariably give their hourly rates. The concept in value billing, however, is that every hour is not worth the same amount of money. If you come up with a great idea—something unusual or something that can make or save the client thousands of dollars—you should bill more than your hourly rate. You should do this even though the idea may have come to you instantaneously. *(Editor's note: Value billing is not to be confused with contingent fees.)*

When asked why they don't bill more, CPAs invariably say, "I have to be competitive." In reality, though, you don't have to be competitive if you do better than average work. This means going beyond routine tax and audit work to developing a niche and applying creative thinking on the client's behalf.

In billing, you have to constantly reassure clients that you are being fair with them. If the service is an average one, they should know that they are paying the same as everyone else. If you come up with something unique, however, the client should know that the fee will be higher. Our engagement letter gives our rates, but it also states that under certain circumstances, we will use value billing.

The main point to keep in mind is that you must explain to people that you aren't average. For example, a client may say that you have quoted $10,000 for an audit but that someone else will do it for $8,000. He would love to have you do it but . . . and waits for you to say you'll do the engagement for $8,000. I tell such a client that if he wants an average service, I'll help him shop around to get an even lower price; my services are not average, however, and I will not budge from what I think is a fair fee for good value, simply to meet the competition.

Time is not the most important factor, although every firm tends to look at billable hours and at rates per hour. Just think, though, how you actually determine the time spent on an engagement. Do you include the time spent thinking about the engagement and the time spent brainstorming with other people? You don't have to have a pencil in your hand to think. And do you charge for the time spent learning your professional skills?

Current practices are to bill actual time at standard rates or to employ what I call the "Is it OK?" method. This second technique is when you hand a client a bill and then ask if it is OK. You are really saying, "You had better look at it, there might be something wrong." Don't raise any doubts. You would not have sent the bill if you did not think it was correct. By asking clients if they think the bill is fair for the service rendered, you are letting the clients set the fee.

What's Inside...

In value billing, a lot of what you do is not immediately visible or is not measurable. For example, I do a lot of estate work. Many accountants do. Much of this work is mechanical, but there are also plenty of creative opportunities. Perhaps there is a small percentage of CPAs who can create or control opportunities in this area. Nevertheless, there are opportunities to value bill.

Marking down is terrible

If you must mark down, do it before you send the bill and let the client know. Write on the bill that you have marked it down and the reason why. For example, you might say, "We billed you $1,000 but we had someone on the engagement whom we are training, and we have deducted $100." The psychological effect of this is enormous. Clients think you are fair.

On the other hand, if the client complains that a bill for $1,000 is too high, and after some haggling you settle on a fee of $900,

- ☐ You have told the client that from now on every bill is negotiable.
- ☐ You will leave the client with a doubt as to whether you have overcharged him in the past.
- ☐ You will make the client wonder whether you are trying to get back the money you marked down every time he receives another bill.

There is nothing wrong with a high bill, provided that you give good-quality, professional service.

Another method commonly used is to compare the current bill with the previous one in the belief that there should be some relationship between the two. This is not necessarily true because circumstances—reporting requirements, taxes, etc.—change from year to year. What you should do is look at the current bill to see who was working on the engagement, and if there is any reason for you to mark it down. If there is, mark it down and write the reason on the bill before you send it to the client.

The psychological barriers to value billing

Perhaps the major barrier to value billing is that the average CPA is afraid that clients will complain that their bills are too high. If clients complain, CPAs fear that their partners will also complain that they are billing too high and that clients might leave. Just think of the thousands of unbilled dollars that have been lost because of these fears.

Our education tends to make us negative thinkers. We are defensive rather than creative—taught to look for what is wrong rather than what is good or correct. Those areas where we can benefit clients are where creativity has value.

To overcome the barriers, we really have to change our personalities. We have to learn to look for ways we can help the client, ways the client can see. Generally, when you do that, you don't have trouble billing the service. One seldom gets complaints value billing for estate planning services.

We have to get away from negative attitudes toward billing and collection, away from negative peer pressure, the wish to avoid controversy, and what I call the "Maybe" syndrome: Maybe we took too much time, maybe we made mistakes, maybe we assigned the wrong person. The list goes on. It has nothing to do with reality and is a form of rationalization that people use to avoid value billing.

So, what's this all about?

Value billing is about finding niches—services your firm can provide that few others can. It means developing skills and determining which services are commonplace and will be billed at your hourly rate, and which areas will allow you to be creative and come up with ideas to benefit the client. Ideas that would not have materialized had you not been involved are worth more than your hourly rate.

One of the things partners sometimes lose sight of is that CPAs are in business. They don't think of themselves as business people. If the client is satisfied, you don't have to cut the bill.

In most instances, clients are willing to pay the fee you set and you can bill higher than average. You have to let clients know that your services are above average, though, and that neither they nor your "competition" is going to set your fees.

Don't be one of those CPAs who bills mechanically. Remember, billing is an attitude, not a process. ☑

—by Sidney F. Jarrow, CPA
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AICPA 100
A CENTURY OF PROGRESS
IN ACCOUNTING
1887-1987

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Highlights of Recent Pronouncements

FASB Statement of Financial Accounting Standards (SFASs)

No. 93 (August 1987), *Recognition of Depreciation by Not-for-Profit Organizations*

- ☐ Establishes standards of financial accounting and reporting that require all not-for-profit organizations to recognize depreciation, the cost of using up long-lived tangible assets, in general-purpose external financial statements, with the exception of certain works of art and historical treasures.
- ☐ Extends to not-for-profit organizations the requirements of APB Opinion no. 12, *Omnibus Opinion—1967*, paragraph 5, to disclose information about depreciable assets and depreciation.
- ☐ Effective for financial statements issued for fiscal years beginning after May 15, 1988, with earlier application encouraged.

No. 92 (August 1987), *Regulated Enterprises—Accounting for Phase-in Plans*

- ☐ Amends FASB Statement no. 71, *Accounting for the Effects of Certain Types of Regulation*, to specify the accounting for phase-in plans.
- ☐ Reiterates that FASB Statement no. 71 does not permit an allowance for earnings on shareholders' investment to be capitalized in general-purpose financial statements when it is capitalized for rate-making purposes other than during construction and, with this Statement, as part of a phase-in plan.
- ☐ Requires allowable costs deferred for future recovery under a phase-in plan related to plants completed before January 1, 1988 and plants on which substantial physical construction has been performed before January 1, 1988 to be capitalized if the following four criteria are met:
  1) The plan has been agreed to by the regulator,
  2) The plan specifies when recovery will occur,
  3) All allowable costs deferred under the plan are scheduled for recovery within ten years of the date when deferrals begin,
  4) The percentage increase in rates scheduled for each future year under the plan is not greater than the percentage increase in rates scheduled for each immediately preceding year.

  If any of these criteria are not met, allowable costs deferred under the plan would not be capitalized, but would be recognized in the same manner as if there were no phase-in plan.
- ☐ Effective for fiscal years beginning after December 15, 1987, it applies to existing and future phase-in plans.

Statements of the Governmental Accounting Standards Board

No. 7 (March 1987), *Advance Refundings Resulting in Defeasance of Debt*

- ☐ Provides guidance on accounting in governmental fund types for advance refundings that result in defeasance of debt recorded in the general long-term debt account group.
- ☐ Provides guidance on required disclosures about advance refunding transactions of all governmental entities regardless of where the debt is reported.
- ☐ Effective for fiscal periods beginning after December 15, 1986. Earlier application is encouraged for fiscal periods for which statements have not previously been issued and retroactive application is permitted for financial statements that have previously been issued.

No. 6 (January 1987), *Accounting and Financial Reporting for Special Assessments*

- ☐ Establishes accounting and financial reporting standards for capital improvements and services financed by special assessments.
- ☐ Eliminates the special assessment fund type as identified in NCGA Statement no. 1, *Governmental Accounting and Financial Reporting Principles*, for financial reporting purposes.
- ☐ Provides guidance for reporting capital improvement assessment projects that meet the following conditions:
  1) Initial financing is provided by existing resources and no debt is issued.
  2) The assets constructed or acquired will benefit an enterprise fund.
  3) The government is not obligated in any manner for the related debt.
- ☐ Defines special assessment debt.
- ☐ Effective for periods beginning after June 15, 1987.

No. 5 (November 1986), *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*

- ☐ Establishes standards for disclosure of pension information by public employee retirement systems (PERS) and state and local governmental employers in notes to financial statements and required supplementary information. These disclosures are intended to provide information needed to assess:
  1) Funding status of a PERS on a going-concern basis.
  2) Progress made in accumulating sufficient assets to pay benefits when due.
  3) Whether employers are making actuarially determined contributions.
- ☐ Standardizes pension disclosure guidance by superseding the pension disclosure requirements of paragraph 9 of GASB Statement no. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide.*
- ☐ Requires disclosures in both financial reports issued by PERS and those issued by employers, including those that do not fund their pension obligation.
- ☐ Requires the computation and disclosure of a standardized measure of the pension obligation.
- ☐ Requires ten-year trend information be presented as supplementary information, including comparisons of:
  1) Net assets available for benefits to the pension benefit obligation.
  2) Unfunded pension benefit obligation to annual covered payroll.
  3) Revenues by source to expenses by type.
- ☐ Requires employers to disclose only summary information about their participation in cost-sharing multiple-employer PERS.
- ☐ Provides guidance on disclosure of information on defined contribution pension plans.
- ☐ Effective for financial reports issued for fiscal years beginning after December 15, 1986. Earlier application is encouraged.

Statements on Auditing Standards

No. 51 (July 1986), *Reporting on Financial Statements Prepared for Use in Other Countries*

- ☐ Provides guidance for independent auditors practicing in the U.S. who are engaged to report on the financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the U.S.
- ☐ Effective for examinations of financial statements for periods beginning after July 31, 1986.

Information for Members

Proposals to restructure profession

The AICPA has installed a toll-free number to handle questions and concerns members may have about the *Plan to Restructure Professional Standards.* The line will be in operation until the end of the balloting period.

Audio cassettes, video tapes, sixty-eight page booklets, and "Vote Excellence" brochures explaining the plan are also available.

Just call 1-800-634-4877.

Technical information

The primary responsibility of the twelve people who staff the Institute's technical information service is to answer members' questions on technical matters. They receive some 30,000 inquiries per year on accounting principles, financial statement presentation, auditing and reporting standards, and certain aspects of professional practice, excluding tax and legal matters. If you would like some assistance, we encourage you to call toll-free: United States, (800) 223-4158; New York State, (800) 522-5430.

Library services

The AICPA library's staff can offer assistance on a broad range of business topics. AICPA members anywhere in the U.S. may borrow from the library's extensive collection. For assistance, just call these toll-free numbers: United States, (800) 223-4155; New York State, (800) 522-5434.

Please note that toll-free calls cannot be transferred to other Institute departments.

Explaining Professional Fees

If clients are fully advised of the scope of engagements and the manner in which fees are determined, disputes over fees should be minimized. Recently, we prepared the following memorandum to explain our fee structure to new clients and to aid in resolving any questions that might arise.

FEE STRUCTURE

From time to time, we get inquiries concerning our method of charging fees. This is understandable since each CPA firm handles fees a little differently and some new clients may not have used a CPA before. This letter is our tool for communicating our fee structure to clients and other interested parties.

BASICS

Each staff member maintains accurate time records, and clients are billed based on actual time spent on their behalf. Since we sell no products and accept no contingent fees, our time and expertise is our only source of revenue.

HOURLY RATES

A standard hourly rate is set for each staff member based on the criteria of experience and ability. If no extenuating circumstances exist, clients are billed using standard hourly rates multiplied by the actual hours worked. It is not uncommon to adjust the fees so determined to recognize:

- ☐ excessive time spent in an unfamiliar area.
- ☐ excessive hourly rates due to unavailability of less experienced staff to perform routine accounting jobs.

Hourly rates vary substantially among staff members—currently from a low of $20 to a high of $75. Accordingly, it makes sense to use less experienced staff members to perform routine accounting procedures to achieve the lowest hourly rate.

TELEPHONE CALLS

Telephone calls are treated the same way as any other time spent on a client's behalf. If matters of substance are discussed, the time is charged and billed to the client. Personal calls of a non-business nature are obviously not charged to clients.

Due to the extensive amount of consulting work done by our firm, conducting business by telephone consumes a substantial amount of our time. For some senior staff members, as much as 25 percent of their time is devoted to telephone consults. The telephone can be an effective, time-saving device, and we make maximum use of it.

OUT-OF-POCKET EXPENSES

Basic overhead costs are included in the hourly rates. Anything spent specifically on behalf of clients is charged to them. Travel, postage, copies, long distance telephone calls, etc., are included in this category.

We believe that effective client relations are essential if a fair fee is to be realized, and that the time to take action is when the engagement is arranged. We find that sending clients a memorandum, such as the above, is a good way to acquaint them with the rationale behind the setting of professional fees. ☑

—by Joe D. Jones, CPA
Jackson, Mississippi

Assisting Clients in the Selection of Computerized Accounting Systems

I was recently asked to assist a client search for a computerized accounting system. The company already had such a system in place, but it had become inefficient and lacked the capacity to support the firm's continued growth. The search for a new system took approximately six months and required extensive interviews with eight major hardware and software vendors.

As a result of that search, and upon the selection of a vendor, I compiled a list of what I believe to be the key items in the decision process. I have listed these items below in the sequence they will follow during such a search.

Your initial step should be to establish a plan to determine exactly what the client's needs are and what problems have been encountered with the existing system. This primarily requires two things:

- ☐ The development of a survey form which permits review of all transactions, statistical data, and sample documents by major function within the organization.
- ☐ The involvement of all key decision makers for user departments in the organization such as accounting, customer service, and production.

As a follow-up to the above, you should establish what hardware, peripheral equipment, and capacity the new system will require. This information will be particularly helpful in making valid pricing comparisons.

Next, see whether there are any vendors that can provide software specifically designed for the client's industry application. A vendor whose efforts are directed solely toward this industry might offer significant advantages.

You should also search for a vendor who can provide both hardware and software. If you can com-

(Continued on page 8)

Hawaiian Punch

When the staff of the AICPA industry and practice management division called to invite us to go to Honolulu to participate in a MAP conference, it did not take much persuasion. With one of us from Bethesda, Maryland, and the other from Marshfield, Wisconsin, the prospect of Hawaii in November was too tempting to pass up.

First, some background. The local practitioners committee of the Hawaii Society of CPAs, in developing a program for its MAP conference, decided that the Local Firm Management Consultation Program of the AICPA would provide a good basis for acquainting participants with current practice management information from the mainland. The idea was to have a two-member team of CPAs who had performed firm management reviews for the AICPA give presentations at the conference.

To give the presenters some insight into the practice of public accounting in Hawaii and to entice practitioners to attend the conference, the committee decided to arrange for the presenters to conduct three firm management reviews in the two days prior to the conference. These reviews would necessarily be scaled down versions of the customary two-day AICPA program (see box at right), but the purposes would still be served. The presenters would gain some understanding of Hawaiian CPA firms, then gear the program toward the types of firms they had reviewed.

The creative talents of the committee surfaced in the method of selecting the firms to be reviewed. Notices telling members about the conference contained a message that the firms to receive a free mini-review would be randomly selected from those conference registrants who indicated a willingness to participate. And so it was.

With the structure in place, the next step was to ask the AICPA's assistance in providing two experienced reviewers to conduct the program. That's when we were contacted.

We had not met before and were both anxious to get acquainted and see what kind of chemistry would develop. We and our wives (you didn't think they would let us go alone, did you?) were met at the airport with traditional lei greetings. But because we arrived in Honolulu at different times on the Tuesday afternoon and had conflicting plans that evening, we did not meet until Wednesday morning.

We did find much in common, including having the same first name. One of us chooses to be called by his middle name, however, and that simplified things considerably during the next few days.

Before leaving the mainland, we had agreed by telephone that we would work as a team on the first mini-review, then each separately review one of the other two selected firms. The names of the firms to be reviewed were kept confidential so that they could in no way be identified in any remarks we might make at the conference.

These mini-reviews were helpful in providing us with an insight into the operation of local practices. Each firm was forthcoming and most receptive to the process. This was the base on which our Friday

AICPA Local Firm Management Consultation Program

This AICPA program is a confidential two-day review of the participating firm by a team of two practitioners who are closely involved in the management of their own firms. A consultation is usually scheduled six to ten weeks after an engagement letter is signed. The firm participates in the selection of a team, and attempts are made to meet requests for consultants with expertise in particular areas.

The review is based on the comprehensive questionnaire in chapter 502 of the *MAP Handbook*. At least two weeks before the consultation takes place, the firm completes the questionnaire and sends it to the consultants who will use the information on the firm's operation and organization as a starting point for their on-site review of firm procedures.

The checklist covers such areas as

- ☐ Practice development.
- ☐ Financial administration.
- ☐ Partnership agreements.
- ☐ Staff scheduling.
- ☐ Billing and collection procedures.
- ☐ Review controls.
- ☐ Office facilities.
- ☐ Filing systems.
- ☐ Personnel recruiting.
- ☐ Staff training.

The consultation can include confidential interviews with partners and staff, and an examination of various documents, records, agreements, and contracts. These interviews can often identify communication problems and facilitate discussion of sensitive issues.

Many partners find that the review helps

MAP conference program was built.

We held a brief planning session on Thursday evening to coordinate our approaches and organize the program for the next day. It had already been agreed that we would use as our outline the topics covered in the AICPA Local Firm Management Consultation Program questionnaire which the registrants had been requested to complete prior to attending the conference. This would target our comments and also provide information about the AICPA program.

We divided the topics between us, and that ended the planning meeting. We had provided some handout material for inclusion in the conference booklet, but had not prepared remarks at all. The entire eight-hour conference would be spontaneous and unrehearsed.

Public accounting in Hawaii is practiced, for the most part, in relatively small units. Although national firms are present, the majority of CPAs operate as sole practitioners or as firms of two or three partners. A "large" firm, of which there are few, has, perhaps, twenty-five to thirty-five people. Another typical arrangement is for two sole practitioners to share quarters and some staff, yet operate strictly as individual practice units. It was to these CPAs that our program was to be addressed, and structured in a manner that would provide the best possible interchange of ideas that would be helpful in operating their practices.

Another lei greeting on Friday, and the program was underway. It didn't take long to find out that the day would go well. Although we each spoke on the topics assigned, calling on personal experience and bringing in comments from the other, we kept the program open to questions from participants at all times. This allowed for a good interchange of thoughts and ideas, and we were pleased to find a responsive audience that participated fully from beginning to end. Although question cards had been provided, most people ignored these and preferred to state their questions orally.

The program provided a full day of discussion on a wide range of practice management issues. There were differences of opinion, from time to time, between the speakers and the attendees, and between the speakers themselves, all of which added to the value of the program.

As an aside, we should comment on the reactions of our wives to our Hawaii visit. Teresa (Ed's wife) was observed looking through realtors' advertisements, mumbling words like "retirement" and "warm," while Sandi (Burn's wife) was overheard telling him, "If we are ever going to have a fight, now is the time!"

Both of us have come away from past local firm practice management programs with the feeling that we gained even more than we gave. The Hawaii society's MAP conference and everything that went with it was no exception. We believe that the objectives were achieved, and would recommend the idea to other state societies, particularly those with relatively small memberships. ☑

—by E. Burns McLindon, CPA
Bethesda, Maryland, and
Edmond L. Smith, CPA
Marshfield, Wisconsin

them to formalize goals and objectives, and to confront problems that were not being addressed. Others think that there are benefits to be derived just getting ready for the reviewers.

Who should have a review?
Some partners think that all firms could gain from the experience, especially practices where there is concern as to whether the partner retirement plan will really work, or if the firm has difficulty retaining outstanding members of the staff. In his December 1986 article in the *Practicing CPA*, Philip D. Neville, a Greeley, Colorado, CPA, says that model partnership agreements, planning and funding for retirement, and staff counseling and motivation are necessities in today's accounting firms. Many firms, he believes, will find that an outside administrative review team can identify and address weaknesses and problems while they are in the embryo stage.

The AICPA consultation program concludes with a confidential conference between the consultants and the involved partners. This begins with a summary of the consultants' findings and includes a discussion of the important points brought forth by the questionnaire. The focus is on helping the firm develop a one- or two-year schedule for improving its administrative procedures and, in addition to helpful suggestions, might include offers to exchange forms, checklists, and manuals.

The cost is $1,700, which covers all direct expenses of the consultants. For further information, contact the AICPA industry and practice management division: (212) 575-3826. ☑

Computerized Systems *(continued from page 5)*
bine your purchasing power, you will be in a better negotiating position.

When reviewing software, be aware of major customizing and programming changes that may be required. In addition to increasing costs, these requirements may establish an ongoing dependence on the software vendor to continue updating and modifying the program. You want a system that requires minimal changes once in place.

Determine the vendor's position regarding program updates and operating system changes. Find out whether the vendor will supply updates and whether the client will absorb the cost.

When reviewing hardware, be aware that equipment being sold at discount prices may be in the process of being phased out by the manufacturer. This could result in the client's purchasing equipment for which there will be no component updates. This would have been the situation with two of the eight hardware vendors I contacted.

Request documentation on the cost and coverage of post-installation maintenance of both hardware and software. You may find that the vendors cover these separately. I noticed that certain vendors did not charge for software maintenance, indicating that it was their responsibility to solve problems encountered with their programs.

Inquire as to the vendor's method for transferring data in the client's existing master files to the new data base. Most vendors I contacted suggested that it could be done by client personnel or by a temporary keypunching service. Others offered to do the conversion for us.

If the software vendor does provide conversion assistance, it may represent a major savings in terms of time and cost. This may be an important negotiating item to conclude a sale with a vendor.

You should also determine the extent of training included on the new system. Find out whether it will be on an in-house basis or conducted at the software company's headquarters. Make sure the proposal is clear on exactly how many hours of training are provided as part of the software package.

The final step is to determine to what extent post-installation support to the system will be provided. For example, how many hours per month will vendor support staff be available? What will it cost, if anything? Also, find out if the support will be in-house, by phone, or by remote terminal. ☑

—by John David Zook, MBA, CPA
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